STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-495

November 17, 2003

PINE TREE TELEPHONE COMPANY
Implementation of 2002 Amendments to Chapter 204

ORDER APPROVING INCREASES TO LOCAL RATES FOR BSCA EXPANSIONS AND BSCA CALCULATIONS (SUBJECT TO TRACKING)

WELCH, Chairman; DIAMOND and REISHUS Commissioners

I. SUMMARY

In this Order, we approve the proposal filed by Pine Tree Telephone Company (Pine Tree) to increase its rates for local service in conjunction with implementation of expansions to its basic service calling areas (BSCAs). These changes take effect on December 15, 2003.

II. BACKGROUND

On November 4, 2003, Pine Tree filed a proposal (including changes to its rate schedules and terms and conditions) to increase local rates to offset the expected revenue effects from expansions to the Company's basic service calling areas. Over the next several months, the Company must also reduce its intrastate access rates. Pursuant to amended 35-A M.R.S.A. § 7101-B, the absolute deadline is May 31, 2005 for all LECs to reduce intrastate access rates to the interstate rates in effect for that company on January 1, 2003. As part of that process, the Company may need to increase its local rates to offset the access revenue losses.[1]

The BSCA expansions are required by the November 2002 amendments to Chapter 204 and will become effective on December 15, 2003. All LECs will experience access revenue losses because calls to the contiguous exchanges that are being added to the BSCAs that previously were long distance toll calls, will become local. Pine Tree, in addition, will lose toll revenue for calls to contiguous exchanges because it provides retail toll services. Thus, for Pine Tree all the access and toll revenue associated with those minutes will be lost. The local rate increases proposed by the Company are designed to offset those losses on a revenue-neutral basis. It is difficult to achieve revenue neutrality, however, for the reasons described below.

[1] It may be necessary to conduct a revenue requirement case to determine whether it is necessary to offset all of the Company's access revenue losses.

III. DISCUSSION

In its October 27, 2003 filings, Pine Tree provided calculations of the BSCA revenue losses for toll and access and estimates of revenue gains from local rate changes. Pine Tree revised the toll revenue loss calculations in its November 4, 2003 filing. The BSCA-related revenue changes include retail toll and access revenue losses that will occur because calls to the areas that are being added to the Company's BSCAs previously incurred long distance toll charges (and generated retail toll and access revenues for the Company), but are now local calls. Revenue for local service also will change because of the rate increases and changes in the mix of subscribership to the Premium and Economy options, as well as the change in the rate (from 50 cents for up to one hour of calling to 5 cents a minute) for economy customers who call outside the flat-rate calling areas of the Economy option but within the BSCA. The Company also included estimates of small amounts of BSCA-related billing software, facility and administrative costs. As discussed in greater detail below, it is difficult to calculate precisely the rate changes needed to achieve revenue neutrality.

Chapter 204, § 5(A) states that a LEC that implements new or modified BSCAs may propose rates that will cover its additional costs and net revenue losses that are attributable to those BSCA changes. Section 5(C) requires LECs to "track" revenue effects for a period of at least 12 months. If the LEC's net revenue loss is greater than predicted (i.e., greater than the prediction upon which the rates approved pursuant to Section 5(A) were based), the LEC may request recovery of the shortfall and propose rates that will collect the correct amount of revenue loss. If the LEC's net revenue loss is less than predicted (and included in rates approved pursuant to Section 5(A)), it must return the excess to customers and must propose future rates that will collect the correct amount to offset the revenue loss.

Pine Tree provides both retail toll services directly to its own customers and access services to other interexchange carriers who provide retail toll services to Pine Tree customers. It is not necessary to engage in a tracking exercise for the lost access revenues and the billing and collection (B&C) revenues associated with the lost access minutes. (Indeed, it is impossible to "track" something that no longer exists.) Once these amounts are calculated, they do not change for ratemaking purposes. The number of minutes and messages (and, therefore, access and B&C revenue) that Pine Tree will lose as a result of the BSCA expansions during the test period is known now. There is only one set of access rates applicable to the traffic to each of the contiguous exchanges that are being added to BSCAs.

It is substantially more difficult, however, to calculate in advance the amount of retail toll revenue that Pine Tree will lose as a result of losing the contiguous exchange portion of its toll traffic. Pine Tree is able to calculate an effective average rate, i.e., its average revenue per minute (ARPM), for *all* of its retail toll traffic. However, because of the various rates and rate plans presently available, it is very difficult to calculate an effective average rate per minute for the subset of traffic to the contiguous exchanges. Some of these plans have minimum charges that include a number of minutes. Pine Tree, however, simply assumed a reduction in revenues from minimum and up-front charges equal to the percentage loss of its usage-sensitive billing units (e.g., minutes). It would be possible to track Pine Tree's toll losses, although many other causes can also affect retail toll revenues. Instead of tracking of toll revenue losses, however, the Company and the Commission Staff have agreed that Pine Tree instead will use a lower APRM than that included in its original filing. We find this result acceptable and, to the extent necessary, grant a waiver (under

Chapter 204, § 7) from the tracking requirement of Section 5(C)(1), which requires tracking of "revenue effects for the first 12 months… ."

The Company has also provided calculations of effects on local revenues. One of those components is the revenue loss from the elimination of the rate of 50 cents per call (for up to one hour of calling) for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option. That component will be permanently lost. (It is being replaced by a rate of 5 cents per minute.) As in the case of the access revenue loss (described above), it is relatively easy to calculate, and its amount is known in advance.

It is necessary, however, to track the amount of new local revenue that will offset the various revenue loss components described above. New local revenues include revenues available from the increases to local rates for both the Premium and Economy options and from the new rate of 5 cents per minute for calls by Economy option customers to exchanges within the expanded BSCA but outside the flat-rate calling area of the Economy option (replacing the 50 cents per call per hour rate).[2] These revenues cannot be fully predicted because the realized mix of customers subscribing to the Premium and Economy options may differ from predicted levels. Predictions are difficult to make because, ultimately, only customers can determine which of the calling options has greater value to them, and the calling areas available under each option will have changed. It is also difficult to predict revenues that the Company will receive from the new 5 cents per minute rate. The new rate may be more attractive to some customers and less attractive to others than the former rate of 50 cents per call and the change might even influence customer choice for the two calling options.

We direct the Company to track the replacement local revenues for 12 months and report the results to the Commission on or before March 15, 2005. Because notice of the BSCA changes will be relatively close to the December 15, 2003 implementation date, and many customers may not respond immediately to the calling options contained in the notice, we believe it makes sense for the 12 months of tracking to begin on February 1, 2004. The results shall be compared to the projections used in the November 4, 2003 filings. The Company may experience other changes in sales that may need to be taken into account in any possible revisions following the BSCA tracking period. Therefore, Pine Tree, on or before March 15, 2005, shall file billing units for all its services, including numbers of access lines and access and retail toll minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period. [3]

Chapter 204, § 5(C) does not expressly require "tracking" of expenses and new investment, or the recovery by the utility or ratepayers of the difference between the estimates embodied in rates and actual costs, notwithstanding the fact the Section 5(A) allows a LEC to propose rates in advance of implementation that will cover those costs. The November 4 filing provided few details in support of its estimates of those costs, and we have

---

[2] Pine Tree estimates that approximately half of its total net revenue loss will result from the conversion of this rate.

[3] A large change in the number of lines will affect revenues, but that revenue change will not be a result of changes in revenues from customers attributable to the BSCA changes. Line data will allow the Commission to calculate a revenue effect per line and thereby filter out effects due to line losses or gains.

not subjected them to close examination. We therefore find that it is reasonable, as a condition of approving the rates pursuant to Section 5(A) of Chapter 204, that the Company keep records of the actual BSCA-related implementation expenses and investment, and that it provide that information to the Commission when such expenses and investment are completed, but no later than March 15, 2005. Tracking should be for a period that covers all expenses related to BSCA and any changes in investment attributable to the BSCA expansions, provided they are made no later than January 31, 2005. Results shall be presented in absolute and annualized forms. With that information, we may consider whether to order a change in rates to reflect the differences between present estimates and actual costs. We do not decide at this time whether we would order reconciliation for the differences during the tracking period. We note, however, that because the cost changes presently estimated by the Companies are not a large percentage of the proposed rate increase, if the projections are reasonably accurate, rate changes or reconciliation may be unnecessary. Pine Tree has proposed a 5-year amortization for expenses. We find that proposal is reasonable. If there is a need to change rates as a result of the tracking, we will determine the appropriate treatment of incremental investment at that time.

V. RATE CHANGES

The table below sets forth the current local rates, the rate changes and rates approved by this Order. Although the *increases* in rates vary considerably, CST has attempted to make its rates more uniform.

	Current Rate	Post-BSCA Rate	Rate Difference
Gray & West Gray Exchanges			
Premium - Residential	9.00	10.02	1.02
Premium - Business	25.00	26.67	1.67
Economy - Residential	4.75	7.02	2.27
Economy - Business	15.00	22.17	7.17
New Gloucester Exchange			
Lewiston-Auburn Premium - Residential	8.00	10.02	2.02
Lewiston-Auburn Premium - Business	23.00	26.67	3.67
Portland Premium - Residential	9.00	10.02	1.02
Portland Premium - Business	28.00	26.67	-1.33
Premium Plus - Residential	12.00	13.02	1.02
Premium Plus - Business	36.00	31.17	-4.83
Economy - Residential	4.75	7.02	2.27
Economy - Business	15.00	22.17	7.17

Accordingly, we

1. APPROVE, pursuant to Chapter 204, § 5(A), the local exchange service rate increases proposed by Pine Tree Telephone Company in this docket;

2. APPROVE the initial calculations by Pine Tree Telephone Company of expected revenue losses and gains and cost changes as a result of BSCA expansions, subject to the maintenance by the Company of tracking accounts and the reporting of the tracking results, as described herein;

3. ORDER Pine Tree Telephone Company to maintain a tracking account from February 1, 2004 until January 31, 2005 for net revenue changes (from changes in local rates and billing units) resulting from additions to basic service calling areas (BSCAs) that will become effective on December 15, 2003; for that purpose the Company shall hold constant in the tracking account the calculations in its filing of November 4, 2003 for retail toll loss, access revenue loss, and loss of revenue from the elimination of the rate of $.50 per call (up to one hour) described herein and shall track the effects of the local revenue increases approved herein;

4. ORDER Pine Tree Telephone Company, on or before March 15, 2005, to report to the Commission the results of the tracking account described in paragraph 3 and changes in the number of lines; to provide a proposal for reimbursement of customers for any over-funding consistent with the requirements of Chapter 204, § 5(C) and this Order; and to propose a rate adjustment for future rates if the rates approved herein result in over-collection;

5. ORDER Pine Tree Telephone Company to maintain a tracking account from the commencement of the incurrence of expenses until January 31, 2005 for changes in its revenue requirement (expenses and investment) resulting from of the implementation of the BSCA changes that will take place on December 15, 2003, and to report the results of that tracking on or before March 15, 2005; and,

6. ORDER Pine Tree Telephone Company, on or before March 15, 2005, to file billing units for all their services, including numbers of access lines and access and retail toll minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.

Dated at Augusta, Maine, this 17th day of November, 2003.

BY ORDER OF THE COMMISSION

____

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.